

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF NORTH MUSKEGON	County MUSKEGON
Audit Date 11/30/05	Opinion Date 2/1/06	Date Accountant Report Submitted to State 3/9/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

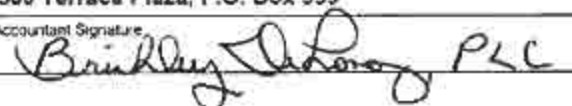
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR):	✓		

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza, P.O. Box 999	City Muskegon	State MI	Zip 49443-0999
Accountant Signature 		Date 3/9/06	

City of North Muskegon
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended November 30, 2005

City of North Muskegon

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As management of the City of North Muskegon, we present to the readers of the City's financial statements this overview and analysis of the financial activities of the City of North Muskegon for the fiscal year ended November 30, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the City of North Muskegon had total assets of \$14,907,686 and total liabilities of \$2,707,638 leaving net assets of \$12,200,048, an increase of 15.4% in the City's overall net assets.
- Of the total \$12,200,048 in net assets, the City may use \$1,797,805 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$5,029,074, made up of governmental revenues of \$3,475,588 and business-type revenues of \$1,553,486.
- Total expenses for all of the City's programs were \$3,403,257. Of that total, the governmental expenses were \$2,213,939 and the business-type expenses were \$1,189,318.
- This year the City repaved Ruddiman Drive for a total cost of \$1,938,551 and installed new sewer and watermain along the road.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the City include general government, public safety, public works and cultural and recreational activities. The business-type activities of the City include water distribution and sewer services.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories-governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets, Contingent and Reserve and Millage funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds. The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water and Sewer funds both of which are major funds.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General, Major Streets, Local Streets and Contingent and Reserve funds.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net assets for the City. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of November 30, 2005, the City's net assets from governmental activities totaled \$9,553,847 (78%) and \$2,646,201 (22%) from business-type activities, creating a total government-wide net assets total of \$12,200,048.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$916,237. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,646,201 in net assets including \$879,694 (33%) in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets are \$243,743 and \$642,244, respectively.

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets and						
other assets	\$ 2,526,657	\$ 1,997,785	\$ 1,117,401	\$ 1,135,162	\$ 3,644,058	\$ 3,132,947
Capital assets	8,593,473	6,653,011	2,670,155	2,301,815	11,263,628	8,954,826
Total assets	11,120,130	8,650,796	3,787,556	3,436,977	14,907,686	12,087,773
Current liabilities	423,080	187,974	239,300	210,986	662,380	398,960
Noncurrent liabilities	1,143,203	170,624	902,055	943,958	2,045,258	1,114,582
Total liabilities	1,566,283	358,598	1,141,355	1,154,944	2,707,638	1,513,542
Net assets						
Invested in capital						
assets, net of related						
debt	7,446,127	6,578,011	1,766,507	1,280,857	9,212,634	7,858,868
Restricted	1,191,483	913,458	-	-	1,191,483	913,458
Unrestricted	916,237	800,729	879,694	1,001,176	1,795,931	1,801,905
Total net assets	\$ 9,553,847	\$ 8,292,198	\$ 2,646,201	\$ 2,282,033	\$ 12,200,048	\$ 10,574,231

The increase in current assets and other assets of the governmental activities mirrors the increase in unrestricted and restricted net assets in the governmental activities. Capital assets of the governmental activities increased due to the Ruddiman Drive reconstruction project and the purchase of a fire truck mini-pumper, a police cruiser, and a hovercraft which will be used for water rescue emergencies. These purchases were funded with new long-term debt which caused noncurrent liabilities to increase.

Capital assets of business-type activities increased due to improvements done as a result of the Ruddiman Drive reconstruction project. Other business-type activities are comparable to the prior year.

Governmental Activities

Governmental activities increased by \$1,261,649 (15%) during the 2005 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

The City received several grants during the current fiscal year which increased the capital grants and contributions revenue category. Of the grants received, \$39,466 was used to purchase a hovercraft and protective personal equipment used by the City's fire department and \$910,145 was used to supplement the cost of the Ruddiman Drive reconstruction project.

Business-type Activities

At the end of the fiscal year, the net assets for business-type activities increased by \$364,168 or 16%. Two funds comprise the business-type activities. The Sewer Fund experienced an increase in net assets for the year totaling \$61,800. The Water Fund had an increase in net assets for the year totaling \$302,368.

Water fund expenses increased due to higher water costs from the City of Muskegon. The City has offset these costs by increasing rates to its users which caused higher charges for services revenues.

Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues						
Charges for services	\$ 126,446	\$ 142,892	\$ 1,529,601	\$ 1,316,380	\$ 1,656,047	\$ 1,459,272
Operating grants	306,354	305,477	-	-	306,354	305,477
Capital grants and contributions	964,178	206,676	-	-	964,178	206,676
General revenues						
Property taxes	1,597,832	1,534,408	-	-	1,597,832	1,534,408
Franchise fees	21,898	21,684	-	-	21,898	21,684
Grants and contributions not restricted	345,620	342,733	-	-	345,620	342,733
Unrestricted investment earnings	58,310	39,287	23,885	12,766	82,195	52,053
Miscellaneous	47,693	28,469	-	-	47,693	28,469
Gain (loss) on sale of capital assets	7,257	(4,856)	-	-	7,257	(4,856)
Total revenues	3,475,588	2,616,770	1,553,486	1,329,146	5,029,074	3,945,916
Expenses:						
General government	511,596	562,359	-	-	511,596	562,359
Public safety	1,053,340	878,444	-	-	1,053,340	878,444
Public works	458,390	462,848	-	-	458,390	462,848
Culture and recreation	170,245	214,820	-	-	170,245	214,820
Interest on long term debt	20,368	4,711	-	-	20,368	4,711
Sewer Fund	-	-	299,171	299,355	299,171	299,355
Water Fund	-	-	890,147	734,920	890,147	734,920
Total expenses	2,213,939	2,123,182	1,189,318	1,034,275	3,403,257	3,157,457
Increase in net assets before transfers	1,261,649	493,588	364,168	294,871	1,625,817	788,459
Transfers	-	9,050	-	(9,050)	-	-
Change in net assets	1,261,649	502,638	364,168	285,821	1,625,817	788,459
Net assets - Beginning	8,292,198	7,789,560	2,282,033	1,996,212	10,574,231	9,785,772
Net assets - Ending	\$ 9,553,847	\$ 8,292,198	\$ 2,646,201	\$ 2,282,033	\$ 12,200,048	\$ 10,574,231

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, the City governmental funds reported a combined unreserved fund balance of \$960,333. This number represents the unreserved fund balance of \$25,000 in the General Fund, \$567,862 in Major Streets, \$360,875 in Local Streets and \$6,596 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for advances to other funds (\$153,673), for capital projects (\$745,468) and for sanitation (\$10,510). When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,869,984, which consists of a fund balance of \$35,510 in the General Fund, \$567,862 in Major Streets, \$360,875 in Local Streets, \$705,090 in Contingent and Reserve, \$181,680 in Millage Fund plus the fund balance of \$18,967 in other governmental funds.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets of the Sewer and Water funds increased by \$63,439 and \$307,022, respectively. The result was an overall net increase in the proprietary funds of \$370,461.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- Licenses and permits revenues were originally budgeted for \$87,650 and were amended down to \$64,248 because of a decrease in large building/renovation projects.
- State revenue was originally budgeted for \$554,198 and was amended down to \$342,371 because a state grant for completing the Waterfront Sports Park improvements was delayed. That revenue and corresponding expenditures are anticipated in the upcoming fiscal year.
- Investment earnings were originally budgeted for \$7,000 and were amended up to \$25,000 because of increased interest rates.
- Attorney expenses were originally budgeted for \$25,400 and were amended up to \$56,900 because of unanticipated legal costs.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- General Fund sanitation expenditures were \$134,264, \$70,086 less than budgeted because of a renegotiated contract with a contractor and a reduction in Department of Public Works staffing.
- General Fund transfers out were \$93,951, \$82,951 more than budgeted because of a larger than anticipated transfer to the Contingent And Reserve Fund.
- Major Streets capital outlay was \$1,883,253, \$183,784 less than budgeted because the costs of repaving Ruddiman Drive were less than originally estimated.

Capital Assets

The City investment in capital assets for its governmental and business-type activities as of November 30, 2005 totaled \$11,263,628 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment, plants and vehicles.

Major capital asset events during the current fiscal year included the following:

- The State of Michigan donated two optical scan voting machines to the City, valued at \$5,528 each.
- The City purchased a floating dock for Block 58 for \$62,500.
- The City replaced Ruddiman Drive for \$1,938,551.
- The City's fire department purchased a hovercraft and trailer for \$29,847 and a mini pumper for \$154,105.
- The City's police department purchased a police cruiser for \$25,281.
- The sewer department purchased a lift station pump for \$9,000, replaced the Bear Lake channel sewer main for \$100,419 and replaced the sewer line along Ruddiman Drive for \$81,532.
- The water department replaced the water main along Ruddiman Drive for \$241,032.
- The City's DPW department purchased a 2006 Ford F250 for \$17,956.
- The City disposed of a pumping station, snow plow, underbody scraper, police cruiser, pumper truck and trash pumps.

CAPITAL ASSETS (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 4,946,506	\$ 4,946,506	\$ 1,500	\$ 1,500	\$ 4,948,006	\$ 4,948,006
Construction in progress	34,796	129,275	-	-	34,796	129,275
Land improvements	111,448	65,911	-	-	111,448	65,911
Buildings and improvements	808,724	858,135	12,415	13,335	821,139	871,470
Furniture and equipment	285,436	279,353	-	-	285,436	279,353
Vehicles and equipment	455,431	343,562	9,689	3,592	465,120	347,154
Infrastructure	1,951,132	30,269	-	-	1,951,132	30,269
Sewer system	-	-	735,019	567,601	735,019	567,601
Water system	-	-	1,911,532	1,715,787	1,911,532	1,715,787
Total	<u>\$ 8,593,473</u>	<u>\$ 6,653,011</u>	<u>\$ 2,670,155</u>	<u>\$ 2,301,815</u>	<u>\$ 11,263,628</u>	<u>\$ 8,954,826</u>

Additional information on the City's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

Long-term Debt

At the end of the 2005 fiscal year, the City had total outstanding debt of \$2,287,462 consisting of general obligations bonds, revenue bonds, Michigan Transportation Fund debt, and accumulated compensated absences. Approximately \$760,000 or (33%) of the City's outstanding debt represented in table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

OUTSTANDING DEBT

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 1,100,000	\$ -	\$ 236,055	\$ 215,958	\$ 1,336,055	\$ 215,958
Michigan Transportation Fund debt	65,000	75,000	-	-	65,000	75,000
Accumulated compensated absences	126,407	117,360	-	-	126,407	117,360
Revenue bonds	-	-	760,000	805,000	760,000	805,000
Total	<u>\$ 1,291,407</u>	<u>\$ 192,360</u>	<u>\$ 996,055</u>	<u>\$ 1,020,958</u>	<u>\$ 2,287,462</u>	<u>\$ 1,213,318</u>

The City's total debt increased by \$1,188,561 during the fiscal year. This increase was due to the borrowing of \$1,100,000 in general obligation bonds, offset by debt payments.

Additional information on the City's long-term debt can be found in Note I of the "Notes to the Financial Statements" of this report.

General Economic Overview

Property Tax Revenues

The City's charter allows for the collection of 10 mills per dollar of taxable value assessed to each property owner. The City's 2005 general operating millage rate will be rolled back to 9.4626 by the Headlee Amendment, which was designed to limit the growth of property tax revenue by controlling the formula used to calculate property taxes. In addition to the operating millage, the city will collect 1.440 of an allowable 2.5 mills for yard waste collection and 1.5 mills, the second year of a 10-year charter amendment millage, for public safety equipment purchases and the Ruddiman Drive repaving project.

Michigan state property tax revenue increases are also greatly influenced by the 1994 Amendment to the State Constitution, commonly referred to as "Proposal A". The statewide tax reform amendment limits the growth in taxable value on any unsold individual property to the lesser of inflation or 5 percent. When property is transferred, the resulting Headlee roll back, caused by the uncapping of taxable values, actually results in other property owners paying less than the rate of inflation. Because the City of North Muskegon is a "mature" community with few parcels available for the building of new homes, the effect of this rollback is magnified. The result is slower growth in the City's property tax revenues.

State Shared Revenues

Typically, the second largest source of municipal revenue is state shared sales tax revenues. Over the past several years, the State's budget challenges have caused a reduction in revenue sharing payments to local governmental units. Over the past five years the City's General Fund has experienced a total reduction in state shared revenues of \$88,086 as compared to fiscal year 2000 levels.

The 2006 General Fund budget anticipates a break-even year for the City. The 2005 budget anticipated the arrival of a \$208,000 state grant awarded for various improvements to the City's waterfront sports park. Because of the lag time in obtaining a permit from the Army Corps of Engineers, the 2006 budget will be amended to include that revenue and corresponding expenditures since that project will be completed in the next fiscal year.

Major Streets and Local Streets Funds

Budgets for revenues and expenditures in both the 2006 Major and Local Streets Fund budgets are consistent with 2005 figures with the exception of the 2005 Ruddiman Drive project costs and the revenues brought in by the grant.

Sewer and Water Funds

The City purchases its water from the City of Muskegon's water treatment plant. Due to water rate increases by Muskegon, North Muskegon implemented a two step rate increase in 2004 and 2005. No further rate adjustments are anticipated during the 2006 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of North Muskegon's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of North Muskegon, 1502 Ruddiman Drive, North Muskegon, Michigan, 49445, (231) 744-1621.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

February 1, 2006

Honorable Mayor and Members
of the City Council
North Muskegon
North Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon as of and for the year ended November 30, 2005, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of North Muskegon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of North Muskegon, as of November 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2006, on our consideration of the City of North Muskegon, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

City Council
February 1, 2006
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - x and 30 - 33 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of North Muskegon's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

City of North Muskegon
STATEMENT OF NET ASSETS
November 30, 2005

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 2,288,797	\$ 551,241	\$ 2,840,038
Receivables	19,229	276,260	295,489
Due from other governmental units	100,896	-	100,896
Internal balances	6,293	(6,293)	-
Inventories	5,000	29,200	34,200
Total current assets	2,420,215	850,408	3,270,623
NONCURRENT ASSETS			
Capital assets, net			
Nondepreciable	4,981,302	1,500	4,982,802
Depreciable	3,612,171	2,668,655	6,280,826
Access rights, net	-	82,996	82,996
Bond issuance costs, net	17,654	9,411	27,065
Special assessments receivable	88,788	174,586	263,374
Total noncurrent assets	8,699,915	2,937,148	11,637,063
Total assets	11,120,130	3,787,556	14,907,686

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	115,136	22,833	137,969
Due to other governmental units	134,945	122,467	257,412
Deferred revenue	24,795	-	24,795
Bonds and other obligations, due within one year	148,204	94,000	242,204
Total current liabilities	423,080	239,300	662,380
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	1,143,203	902,055	2,045,258
Total liabilities	1,566,283	1,141,355	2,707,638
NET ASSETS			
Invested in capital assets, net of related debt	7,446,127	1,766,507	9,212,634
Restricted for:			
Streets and highways	985,048	-	985,048
Capital projects	195,925	-	195,925
Sanitation	10,510	-	10,510
Unrestricted	916,237	879,694	1,795,931
Total net assets	\$ 9,553,847	\$ 2,646,201	\$ 12,200,048

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF ACTIVITIES
For the year ended November 30, 2005

<i>Functions/Programs</i>	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 511,596	\$ 19,196	\$ -	\$ 11,056	\$ (481,344)	\$ -	\$ (481,344)
Public safety	1,053,340	58,667	-	39,466	(955,207)	-	(955,207)
Public works	458,390	42,035	306,354	910,156	800,155	-	800,155
Culture and recreation	170,245	6,548	-	3,500	(160,197)	-	(160,197)
Interest on long-term debt	20,368	-	-	-	(20,368)	-	(20,368)
Total governmental activities	2,213,939	126,446	306,354	964,178	(816,961)	-	(816,961)
Business-type activities							
Sewer	299,171	353,902	-	-	-	54,731	54,731
Water	890,147	1,175,699	-	-	-	285,552	285,552
Total business-type activities	1,189,318	1,529,601	-	-	-	340,283	340,283
Total government	<u>\$ 3,403,257</u>	<u>\$ 1,656,047</u>	<u>\$ 306,354</u>	<u>\$ 964,178</u>	(816,961)	340,283	(476,678)
General revenues							
Property taxes					1,597,832	-	1,597,832
Franchise fees					21,898	-	21,898
Grants and contributions not restricted to specific programs					345,620	-	345,620
Unrestricted investment earnings					58,310	23,885	82,195
Miscellaneous					47,693	-	47,693
Gain on sale of capital assets					7,257	-	7,257
Total general revenues					2,078,610	23,885	2,102,495
Change in net assets					1,261,649	364,168	1,625,817
Net assets at December 1, 2004					8,292,198	2,282,033	10,574,231
Net assets at November 30, 2005					<u>\$ 9,553,847</u>	<u>\$ 2,646,201</u>	<u>\$ 12,200,048</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
BALANCE SHEET
Governmental Funds
November 30, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Contingent and Reserve Fund	Millage Fund	Other governmental funds	Total governmental funds
ASSETS							
Cash and investments	\$ 194,134	\$ 676,058	\$ 341,569	\$ 428,998	\$ 301,338	\$ 51,675	\$ 1,993,772
Receivables							
Accounts	2,575	625	-	-	-	-	3,200
Property taxes	4,126	-	-	-	342	-	4,468
Special assessments	-	-	89,829	-	-	10,520	100,349
Due from other governmental units	61,687	28,883	10,326	-	-	-	100,896
Due from other funds	-	-	-	122,419	-	-	122,419
Advances to other funds	-	-	-	153,673	-	-	153,673
Total assets	<u>\$ 262,522</u>	<u>\$ 705,566</u>	<u>\$ 441,724</u>	<u>\$ 705,090</u>	<u>\$ 301,680</u>	<u>\$ 62,195</u>	<u>\$ 2,478,777</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 55,189	\$ 2,038	\$ -	\$ -	\$ -	\$ 436	\$ 57,663
Accrued liabilities	24,609	721	1,001	-	-	179	26,510
Due to other governmental units	-	134,945	-	-	-	-	134,945
Due to other funds	122,419	-	-	-	-	-	122,419
Deferred revenue	24,795	-	79,848	-	-	8,940	113,583
Advances from other funds	-	-	-	-	120,000	33,673	153,673
Total liabilities	<u>227,012</u>	<u>137,704</u>	<u>80,849</u>	<u>-</u>	<u>120,000</u>	<u>43,228</u>	<u>608,793</u>
Fund balances (deficits)							
Reserved for:							
Advances	-	-	-	153,673	-	-	153,673
Capital projects	-	-	-	-	181,680	14,245	195,925
Sanitation	10,510	-	-	-	-	-	10,510
Unreserved, undesignated							
General Fund	25,000	-	-	-	-	-	25,000
Special revenue funds	-	567,862	360,875	551,417	-	6,596	1,486,750
Capital projects funds	-	-	-	-	-	(1,874)	(1,874)
Total fund balances (deficits)	<u>35,510</u>	<u>567,862</u>	<u>360,875</u>	<u>705,090</u>	<u>181,680</u>	<u>18,967</u>	<u>1,869,984</u>
Total liabilities and fund balances	<u>\$ 262,522</u>	<u>\$ 705,566</u>	<u>\$ 441,724</u>	<u>\$ 705,090</u>	<u>\$ 301,680</u>	<u>\$ 62,195</u>	<u>\$ 2,478,777</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**

November 30, 2005

Total fund balance—governmental funds	\$	1,869,984
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 10,140,634	
Accumulated depreciation	<u>(1,708,954)</u>	8,431,680

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	18,496	
Accumulated amortization	<u>(842)</u>	17,654

Accrued interest in governmental activities is not reported in the governmental funds.	(6,200)
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Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.	88,788
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(1,165,000)	
Compensated absences	<u>(126,407)</u>	(1,291,407)

Internal service funds are used by management to charge the costs of certain activities
to individual funds. The assets and liabilities of the internal service funds are reported
with governmental activities in the Statement of Net Assets.

	<u>443,348</u>
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Net assets of governmental activities in the Statement of Net Assets	\$ <u><u>9,553,847</u></u>
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The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended November 30, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Contingent and Reserve Fund	Millage Fund	Other governmental funds	Total governmental funds
REVENUES							
Property taxes	\$ 1,408,485	\$ -	\$ -	\$ -	\$ 189,347	\$ -	\$ 1,597,832
Licenses and permits	66,428	-	-	-	-	-	66,428
Intergovernmental revenues							
Federal	39,466	910,145	-	-	-	-	949,611
State	354,437	209,694	77,121	-	-	-	641,252
Charges for services	65,464	-	-	3,800	-	9,598	78,862
Fines and forfeitures	10,115	-	-	-	-	-	10,115
Investment earnings	25,336	10,415	9,124	10,124	15,566	2,500	73,065
Other	52,308	625	13,308	-	-	1,502	67,743
Total revenues	2,022,039	1,130,879	99,553	13,924	204,913	13,600	3,484,908
EXPENDITURES							
Current							
General government	365,105	-	-	-	-	-	365,105
Public safety	656,176	-	-	-	-	-	656,176
Public works	233,171	83,181	56,385	-	-	-	372,737
Culture and recreation	92,985	-	-	-	-	13,835	106,820
Other governmental functions	517,002	-	-	-	-	-	517,002
Debt service							
Principal	-	-	10,000	-	-	-	10,000
Interest and fees	9,319	-	3,305	-	-	-	12,624
Bond issuance costs	-	18,496	-	-	-	-	18,496
Capital outlay	243,607	1,883,253	-	-	-	-	2,126,860
Total expenditures	2,117,365	1,984,930	69,690	-	-	13,835	4,185,820
Excess of revenues over (under) expenditures	(95,326)	(854,051)	29,863	13,924	204,913	(235)	(700,912)
OTHER FINANCING SOURCES (USES)							
Proceeds from sale of capital assets	7,257	-	-	-	-	-	7,257
Proceeds from long-term debt	-	-	-	-	1,100,000	-	1,100,000
Discount on long-term debt issued	-	-	-	-	(1,844)	-	(1,844)
Transfers in	192,530	1,046,902	-	121,880	-	1,790	1,363,102
Transfers out	(93,951)	-	-	(1,790)	(1,239,432)	(27,929)	(1,363,102)
Total other financing sources (uses)	105,836	1,046,902	-	120,090	(141,276)	(26,139)	1,105,413
Net change in fund balances	10,510	192,851	29,863	134,014	63,637	(26,374)	404,501
Fund balances at December 1, 2004	25,000	375,011	331,012	571,076	118,043	45,341	1,465,483
Fund balances at November 30, 2005	\$ 35,510	\$ 567,862	\$ 360,875	\$ 705,090	\$ 181,680	\$ 18,967	\$ 1,869,984

The accompanying notes are an integral part of this statement.

City of North Muskegon
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended November 30, 2005

Net change in fund balances—total governmental funds: \$ 404,501

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (137,769)	
Capital outlay and bond issuance costs	<u>2,145,355</u>	2,007,586

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(14,069)
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Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.	(1,100,000)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	10,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	(5,900)
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	(9,047)
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(11,471)
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The internal service funds are used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.	<u>(19,951)</u>
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Change in net assets of governmental activities	<u><u>\$ 1,261,649</u></u>
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The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF NET ASSETS
Proprietary Funds
November 30, 2005

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 166,232	\$ 385,009	\$ 551,241	\$ 295,025
Receivables				
Accounts	78,289	176,350	254,639	-
Special assessments	1,440	20,181	21,621	-
Inventories	3,000	26,200	29,200	5,000
Total current assets	248,961	607,740	856,701	300,025
NONCURRENT ASSETS				
Capital assets				
Land	-	1,500	1,500	-
Utility systems	1,238,796	2,695,886	3,934,682	-
Buildings and improvements	-	13,795	13,795	-
Equipment	28,634	17,034	45,668	737,566
Less accumulated depreciation	(524,611)	(800,879)	(1,325,490)	(575,773)
Net capital assets	742,819	1,927,336	2,670,155	161,793
Access rights, net	82,996	-	82,996	-
Bond issuance costs, net	-	9,411	9,411	-
Special assessments receivable	8,640	165,946	174,586	-
Total noncurrent assets	834,455	2,102,693	2,937,148	161,793
Total assets	1,083,416	2,710,433	3,793,849	461,818
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	2,929	10,945	13,874	24,455
Accrued liabilities	515	8,444	8,959	308
Due to other governmental units	10,414	112,053	122,467	-
Bonds and other obligations, due within one year	41,000	53,000	94,000	-
Total current liabilities	54,858	184,442	239,300	24,763
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	111,193	790,862	902,055	-
Total liabilities	166,051	975,304	1,141,355	24,763
NET ASSETS				
Invested in capital assets, net of related debt	673,622	1,092,885	1,766,507	161,793
Unrestricted	243,743	642,244	885,987	275,262
Total net assets	\$ 917,365	\$ 1,735,129	2,652,494	\$ 437,055
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(6,293)	
Net assets of business-type activities			\$ 2,646,201	

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended November 30, 2005

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 347,902	\$ 947,429	\$ 1,295,331	\$ 105,347
OPERATING EXPENSES				
Administration	18,519	22,029	40,548	1,097
Operations	215,976	768,819	984,795	81,922
Depreciation and amortization	50,528	49,152	99,680	53,357
Total operating expenses	285,023	840,000	1,125,023	136,376
Operating income (loss)	62,879	107,429	170,308	(31,029)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	7,069	16,816	23,885	4,785
Connection fees	6,000	228,270	234,270	-
Interest expense	(12,509)	(45,493)	(58,002)	-
Total nonoperating revenues	560	199,593	200,153	4,785
Change in net assets	63,439	307,022	370,461	(26,244)
Total net assets at December 1, 2004	853,926	1,428,107		463,299
Total net assets at November 30, 2005	\$ 917,365	\$ 1,735,129		\$ 437,055
Adjustments to reflect the consolidation of internal service fund activities related to enterprise funds			(6,293)	
Change in net assets of business-type activities			\$ 364,168	

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended November 30, 2005

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 332,431	\$ 986,447	\$ 1,318,878	\$ -
Receipts from interfund services provided	1,200	7,753	8,953	136,575
Payments to suppliers	(178,584)	(689,804)	(868,388)	(43,051)
Payments to employees	(45,449)	(78,820)	(124,269)	(19,092)
Payment for interfund services used	(14,384)	(34,680)	(49,064)	-
Net cash provided by operating activities	95,214	190,896	286,110	74,432
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Connection fees	7,440	153,394	160,834	-
Purchases of capital assets	(190,951)	(241,032)	(431,983)	(17,955)
Principal paid on capital debt	(29,693)	(47,988)	(77,681)	-
Interest paid on capital debt	(12,509)	(45,493)	(58,002)	-
Net cash used for capital and related financing activities	(225,713)	(181,119)	(406,832)	(17,955)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	7,069	16,816	23,885	4,785
Net increase (decrease) in cash and investments	(123,430)	26,593	(96,837)	61,262
Cash and investments at December 1, 2004	289,662	358,416	648,078	233,763
Cash and investments at November 30, 2005	\$ 166,232	\$ 385,009	\$ 551,241	\$ 295,025
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 62,879	\$ 107,429	\$ 170,308	\$ (31,029)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization expense	50,528	49,152	99,680	53,357
Change in assets and liabilities				
Receivables, net	(14,271)	46,771	32,500	-
Internal balances	(8,818)	(18,874)	(27,692)	31,228
Accounts and other payables	4,695	5,940	10,635	21,121
Accrued liabilities	201	478	679	(245)
Net cash provided by operating activities	\$ 95,214	\$ 190,896	\$ 286,110	\$ 74,432
Noncash financing activities				
Assumption of additional County debt	\$ 52,779	\$ -	\$ 52,779	\$ -

The accompanying notes are an integral part of this statement.

City of North Muskegon
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Fund
November 30, 2005

	<u>Agency fund</u>
ASSETS	
Cash and investments	\$ <u>840</u>
LIABILITIES	
Due to other governmental units	589
Other liabilities	<u>251</u>
Total liabilities	\$ <u>840</u>

The accompanying notes are an integral part of this statement.

City of North Muskegon
NOTES TO FINANCIAL STATEMENTS
November 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of North Muskegon (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. Generally accepted accounting principles require that if the City has certain oversight responsibilities over other organizations, those organizations should be included in the City's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's major streets.

The Local Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of the City's local streets.

The Contingent and Reserve Fund is used to account for the excess revenues received or provides for deficiencies incurred in the General Fund.

The Millage Fund is used to account for property taxes received for public safety and Ruddiman Drive repaving.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the City totaled approximately \$126,230,000. The ad valorem taxes levied consisted of 9.52, 1.62 and 1.5 mills for the City's general operating, rubbish collection and public safety/Ruddiman repaving purposes. These amounts are recognized in the respective General Fund and Millage Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets—Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since December 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-30
Buildings and improvements	10-35
Office furniture and equipment	5-10
Vehicles and equipment	4-25
Infrastructure	10-50

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid for one-half of their accrued sick days as separation pay under limits that vary by employment group. Sick leave is accumulated at the rate of one day per month of employment.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the commencement of the fiscal year, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following December 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. No later than November 30, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended November 30, 2005, actual expenditures exceeded appropriations for transfers out by \$82,951 in the General Fund. These over expenditures were funded with available fund balance.

Fund Deficit

As of November 30, 2005, the Alley Paving District #02-A Fund had an undesignated fund deficit of \$1,874. The deficit will be eliminated as special assessments are collected and recognized as revenue.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE C—DEPOSITS AND INVESTMENTS

As of November 30, 2005, the City had the following investments:

Investment Type	<u>Fair value</u>	<u>Weighted average maturity (Days)</u>	<u>Moody's</u>	<u>Percent</u>
External investment pool	\$ 917,262	26	not rated	100 %

The City voluntarily invests certain excess funds in external pooled investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pool.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of November 30, 2005, \$1,751,378 of the City's bank balance of \$1,952,301 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended November 30, 2005 was as follows:

	Balance December 1, 2004	Additions	Deductions	Balance November 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,946,506	\$ -	\$ -	\$ 4,946,506
Construction in progress	<u>129,275</u>	<u>1,906,572</u>	<u>2,001,051</u>	<u>34,796</u>
Total capital assets, not being depreciated	5,075,781	1,906,572	2,001,051	4,981,302
Capital assets, being depreciated:				
Land improvements	260,938	62,500	6,500	316,938
Buildings and other improvements	1,871,323	-	-	1,871,323
Office, furniture and equipment	921,924	29,011	8,906	942,029
Vehicles and equipment	653,773	209,232	65,600	797,405
Infrastructure	<u>30,652</u>	<u>1,938,551</u>	<u>-</u>	<u>1,969,203</u>
Total capital assets, being depreciated	3,738,610	2,239,294	81,006	5,896,898
Less accumulated depreciation:				
Land improvements	195,027	12,424	1,961	205,490
Buildings and other improvements	1,013,188	49,411	-	1,062,599
Office, furniture and equipment	642,571	14,022	-	656,593
Vehicles and equipment	310,211	96,739	64,976	341,974
Infrastructure	<u>383</u>	<u>17,688</u>	<u>-</u>	<u>18,071</u>
Total accumulated depreciation	<u>2,161,380</u>	<u>190,284</u>	<u>66,937</u>	<u>2,284,727</u>
Total capital assets, being depreciated, net	<u>1,577,230</u>	<u>2,049,010</u>	<u>14,069</u>	<u>3,612,171</u>
Capital assets, net	<u>\$ 6,653,011</u>	<u>\$ 3,955,582</u>	<u>\$ 2,015,120</u>	<u>\$ 8,593,473</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 1,500	\$ -	\$ -	\$ 1,500

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE D—CAPITAL ASSETS—Continued

	Balance December 1, 2004	Additions	Deductions	Balance November 30, 2005
Business-type activities:—Continued				
Capital assets, being depreciated:				
Sewer system	\$ 1,056,845	\$ 181,951	\$ -	\$ 1,238,796
Water system	2,454,854	241,032	-	2,695,886
Buildings and improvements	13,795	-	-	13,795
Equipment	36,668	9,000	-	45,668
Total capital assets, being depreciated	3,562,162	431,983	-	3,994,145
Less accumulated depreciation:				
Sewer system	489,244	14,533	-	503,777
Water system	739,067	45,287	-	784,354
Buildings and improvements	460	920	-	1,380
Equipment	33,076	2,903	-	35,979
Total accumulated depreciation	1,261,847	63,643	-	1,325,490
Total capital assets, being depreciated, net	2,300,315	368,340	-	2,668,655
Capital assets, net	\$ 2,301,815	\$ 368,340	\$ -	\$ 2,670,155

Depreciation

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 8,002
Public safety	47,821
Public works	29,884
Culture and recreation	51,220
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	53,357
	<u>\$ 190,284</u>

Business-type activities:

Sewer	\$ 15,733
Water	47,910
	<u>\$ 63,643</u>

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE E—ACCESS RIGHTS

Access rights activity for the year ended November 30, 2005 was as follows:

	Balance December 1, 2004	Additions	Deductions	Balance November 30, 2005
Business-type activities				
Access rights	\$ 292,504	\$ 52,779	\$ 181,992	\$ 163,291
Less accumulated amortization	<u>227,492</u>	<u>34,795</u>	<u>181,992</u>	<u>80,295</u>
Access rights, net	<u>\$ 65,012</u>	<u>\$ 17,984</u>	<u>\$ -</u>	<u>\$ 82,996</u>

Amortization

Amortization expense has been charged to sewer.

NOTE F—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended November 30, 2005 was as follows:

	Balance December 1, 2004	Additions	Deductions	Balance November 30, 2005
Governmental activities:				
Bond issuance costs	\$ -	\$ 18,496	\$ -	\$ 18,496
Less accumulated amortization	<u>-</u>	<u>842</u>	<u>-</u>	<u>842</u>
Bond issuance costs, net	<u>\$ -</u>	<u>\$ 17,654</u>	<u>\$ -</u>	<u>\$ 17,654</u>
Business-type activities:				
Bond issuance costs	\$ 16,060	\$ -	\$ -	\$ 16,060
Less accumulated amortization	<u>5,407</u>	<u>1,242</u>	<u>-</u>	<u>6,649</u>
Bond issuance costs, net	<u>\$ 10,653</u>	<u>\$ (1,242)</u>	<u>\$ -</u>	<u>\$ 9,411</u>

Amortization

Amortization expense was charged to functions as follows:

Governmental activities:

Interest on long-term debt	\$ <u>842</u>
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Business-type activities:

Sewer	\$ <u>1,242</u>
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City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE G—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds:

The General Fund owes \$122,419 to the Contingent and Reserve Fund for transfers not paid as of November 30, 2005.

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Contingent and Reserve Fund	Millage Fund	\$ 120,000
Contingent and Reserve Fund	Other governmental funds	33,673
		<u>\$ 153,673</u>

The outstanding advances are for capital projects.

Interfund transfers:

	<u>Transfers in:</u>				<u>Total</u>	<u>Purpose</u>
	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Contingent and Reserve Fund</u>	<u>Other governmental funds</u>		
Transfers out:						
General Fund	\$ -	\$ -	\$ 93,951	\$ -	\$ 93,951	See Note J
Contingent and Reserve Fund	-	-	-	1,790	1,790	Operations subsidy
Millage Fund	192,530	1,046,902	-	-	1,239,432	Public safety and public works
Nonmajor governmental funds	<u>-</u>	<u>-</u>	<u>27,929</u>	<u>-</u>	<u>27,929</u>	Close funds
Total	<u>\$ 192,530</u>	<u>\$ 1,046,902</u>	<u>\$ 121,880</u>	<u>\$ 1,790</u>	<u>\$ 1,363,102</u>	

NOTE H—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>City</u>	
	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 88,788	\$ -
Grants and fees	<u>-</u>	<u>24,795</u>
Total deferred revenue for governmental funds	<u>\$ 88,788</u>	<u>\$ 24,795</u>

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE I—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended November 30, 2005.

	Balance December 1, 2004	Additions	Reductions	Balance November 30, 2005	Due within one year
Governmental activities:					
General obligation bonds	\$ -	\$ 1,100,000	\$ -	\$ 1,100,000	\$ 75,000
Michigan Transportation Fund debt	75,000	-	10,000	65,000	10,000
Compensated absences	117,360	35,783	26,736	126,407	63,204
Governmental activity long-term liabilities	<u>\$ 192,360</u>	<u>\$ 1,135,783</u>	<u>\$ 36,736</u>	<u>\$ 1,291,407</u>	<u>\$ 148,204</u>
Business-type activities:					
General obligation bonds	\$ 215,958	\$ 52,778	\$ 32,681	\$ 236,055	\$ 44,000
Revenue bonds	805,000	-	45,000	760,000	50,000
Business-type activity long-term liabilities	<u>\$ 1,020,958</u>	<u>\$ 52,778</u>	<u>\$ 77,681</u>	<u>\$ 996,055</u>	<u>\$ 94,000</u>

Governmental activities:

General obligation bonds:

Limited Tax General Obligation Bonds of 2005 payable in
annual installments of \$75,000 to \$175,000
through April 2014; interest at rates varying
from 3.25% to 3.6%

\$ 1,100,000

Michigan Transportation Fund debt:

\$115,000 Michigan Transportation Fund Bonds of 2001
payable in annual installments of
\$10,000 to \$15,000 through November
2010; interest at rates varying from 4.1%
to 4.4%

65,000

1,165,000

Compensated absences

126,407

\$ 1,291,407

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE I—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Business-type activities:

General obligation bonds:

\$129,334 Northside Water System Bonds of 1983; payable in annual installments of \$8,200 through February 2022; including interest at 6%	\$ 83,862
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\$110,521 Muskegon County Wastewater Management System Bonds of 2002 payable in annual installments of \$33,043 to \$33,675 through July 2008; interest at 5%	121,080
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\$542,500 Muskegon County Wastewater Management System contract payable beginning in 2008; interest at 1.625%	31,113
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Revenue bonds:

\$895,000 Water Revenue Bonds of 2001 payable in annual installments of \$50,000 to \$55,000 through November 2020; interest at 4.5% to 5.4%	<u>760,000</u>
	<u>\$ 996,055</u>

For governmental activities, claims and judgments and compensated absences are liquidated by the General Fund.

The County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 20 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local units, including the City of North Muskegon, was amended to provide financial relief to the County's largest industrial user. Under terms of the amendment, the allocation of debt service charged to each local unit user will increase. The Sewer Fund's total debt obligation and annual payments on that obligation will increase by about 21 percent. The financial impact on the City in 2005 was \$7,068. This bond will be fully retired in 2008. Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows. Payments on these issues will increase for all local units, including the City, by about 43 percent. The financial impact on the City in 2005 was about \$5,600.

The City was in compliance in all material respects with all the revenue bond ordinances at November 30, 2005.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE I—LONG-TERM DEBT—Continued

Annual debt service requirements to maturity for debt outstanding as of November 30, 2005 follows:

Year ending November 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2006	\$ 85,000	\$ 38,801	\$ 93,915	\$ 48,387
2007	85,000	35,964	93,723	43,908
2008	115,000	32,710	124,642	39,439
2009	140,000	28,424	53,774	34,976
2010	140,000	23,638	59,000	32,500
2011-2015	600,000	44,934	273,901	121,949
2016-2020	-	-	286,985	50,365
2021-2025	-	-	10,115	758
	<u>\$ 1,165,000</u>	<u>\$ 204,471</u>	<u>\$ 996,055</u>	<u>\$ 372,282</u>

NOTE J—UNRESERVED, UNDESIGNATED FUND BALANCE – GENERAL FUND

In accordance with a council resolution, the unreserved, undesignated fund balance in the General Fund is maintained at \$25,000. The Contingent and Reserve Fund receives excess revenues or provides for deficiencies. The transfer from the General Fund to the Contingent and Reserve Fund amounted to \$93,951 for the year ended November 30, 2005.

NOTE K—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE K—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were fourteen retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended November 30, 2005, the City's post-retirement health care cost under the Plan was approximately \$109,000.

Lease

The City leases an automobile under an operating lease. Lease expense amounted to \$4,675 for the year ended November 30, 2005. The future minimum lease payments for these leases are as follows:

<u>Year ending</u> <u>November 30,</u>	<u>Amount</u>
2006	\$ 4,656
2007	<u>3,103</u>
	<u>\$ 7,759</u>

NOTE L—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The City of North Muskegon is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of North Muskegon. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of North Muskegon
1502 Ruddiman Drive
North Muskegon, MI 49445

City of North Muskegon
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
November 30, 2005

NOTE L—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Pension Plan—Continued

Funding Policy. Plan members are required to contribute 3 percent of the first \$4,200 of annual compensation and 5 percent of the portion over \$4,200 to the plan. The City is required to contribute at an actuarially-determined rate depending upon position from 14.97 to 21.08 percent of covered wages.

Annual Pension Cost. For the year ended November 30, 2005, the City's annual pension cost was approximately \$81,000 which the City contributed. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
11/30/03	\$ 68,000	100 %	\$ -
11/30/04	69,000	100	-
11/30/05	81,000	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/02	\$ 3,480	\$ 4,053	\$ 573	86 %	\$ 836	69 %
12/31/03	3,673	4,459	786	82	880	89
12/31/04	3,755	5,092	1,337	74	770	174

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE M—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 17 percent of General Fund revenues.

REQUIRED SUPPLEMENTARY INFORMATION

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended November 30, 2005

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,406,916	\$ 1,405,548	\$ 1,408,485	\$ 2,937
Licenses and permits	87,650	64,248	66,428	2,180
Intergovernmental revenues				
Federal	-	39,450	39,466	16
State	554,198	342,371	354,437	12,066
Charges for services	40,985	49,260	65,464	16,204
Fines and forfeitures	15,000	9,350	10,115	765
Investment earnings	7,000	25,000	25,336	336
Other	63,686	57,168	52,308	(4,860)
Total revenues	2,175,435	1,992,395	2,022,039	29,644
EXPENDITURES				
Current				
General government				
City manager	74,856	74,956	74,690	266
Elections	7,450	4,950	3,692	1,258
Board of review	700	431	429	2
Clerk	46,791	46,441	46,033	408
Treasurer	46,267	46,267	46,096	171
Assessor	18,940	18,190	18,161	29
Attorney	25,400	56,900	45,893	11,007
Office - clerical	32,519	31,919	31,332	587
City hall	53,040	53,947	53,805	142
Public service building	26,750	44,400	44,974	(574)
Public safety				
Police department	489,385	488,785	494,048	(5,263)
Fire department	132,510	149,168	147,728	1,440
Building inspector	14,900	14,400	14,400	-
Public works				
Sidewalk maintenance	26,800	13,550	11,893	1,657
Street department	93,563	83,923	86,782	(2,859)
Engineering	3,000	250	232	18
Sanitation	204,350	204,350	134,264	70,086
Culture and recreation				
City parks	27,750	25,750	22,817	2,933
Recreation facilities	30,300	29,300	26,341	2,959
Walker Memorial Library	42,250	42,850	43,827	(977)
Other governmental functions	560,670	532,260	517,002	15,258
Debt service				
Interest and fees	-	9,319	9,319	-
Capital outlay	358,494	243,551	243,607	(56)
Total expenditures	2,316,685	2,215,857	2,117,365	98,492
Excess of revenues over (under) expenditures	(141,250)	(223,462)	(95,326)	128,136
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	2,000	7,257	7,257	-
Transfers in	139,250	227,205	192,530	(34,675)
Transfers out	-	(11,000)	(93,951)	(82,951)
Total other financing sources (uses)	141,250	223,462	105,836	(117,626)
Net change in fund balance	\$ -	\$ -	10,510	\$ 10,510
Fund balance at December 1, 2004			25,000	
Fund balance at November 30, 2005			\$ 35,510	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended November 30, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues				
Federal	\$ 960,000	\$ 910,145	\$ 910,145	\$ -
State	224,900	214,363	209,694	(4,669)
Investment earnings	1,500	9,500	10,415	915
Other	-	-	625	625
Total revenues	1,186,400	1,134,008	1,130,879	(3,129)
EXPENDITURES				
Current				
Public works	84,693	75,658	83,181	(7,523)
Debt service				
Bond issuance costs	18,500	18,500	18,496	4
Capital outlay	2,081,500	2,067,037	1,883,253	183,784
Total expenditures	2,184,693	2,161,195	1,984,930	176,265
Excess of revenues over (under) expenditures	(998,293)	(1,027,187)	(854,051)	173,136
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	1,140,000	-	-	-
Transfers in	-	1,170,200	1,046,902	(123,298)
Transfers out	(10,000)	-	-	-
Total other financing sources	1,130,000	1,170,200	1,046,902	(123,298)
Net change in fund balance	\$ 131,707	\$ 143,013	192,851	\$ 49,838
Fund balance at December 1, 2004			375,011	
Fund balance at November 30, 2005			\$ 567,862	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Local Streets Fund
For the year ended November 30, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - state	\$ 87,000	\$ 79,150	\$ 77,121	\$ (2,029)
Investment earnings	3,000	9,000	9,124	124
Other	9,981	3,427	13,308	9,881
Total revenues	99,981	91,577	99,553	7,976
EXPENDITURES				
Current				
Public works	85,858	56,318	56,385	(67)
Debt service				
Principal	10,000	10,000	10,000	-
Interest and fees	3,305	3,305	3,305	-
Total expenditures	99,163	69,623	69,690	(67)
Net change in fund balance	\$ 818	\$ 21,954	29,863	\$ 7,909
Fund balance at December 1, 2004			331,012	
Fund balance at November 30, 2005			\$ 360,875	

City of North Muskegon
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Contingent and Reserve Fund
For the year ended November 30, 2005

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Charges for services	\$ -	\$ -	\$ 3,800	\$ 3,800
Investment earnings	3,000	9,700	10,124	424
Total revenues	3,000	9,700	13,924	4,224
OTHER FINANCING SOURCES (USES)				
Transfers in	3,800	42,729	121,880	79,151
Transfers out	(120,975)	(41,258)	(1,790)	39,468
Total other financing sources and uses	(117,175)	1,471	120,090	118,619
Net change in fund balance	\$ (114,175)	\$ 11,171	134,014	\$ 122,843
Fund balance at December 1, 2004			571,076	
Fund balance at November 30, 2005			\$ 705,090	

OTHER SUPPLEMENTAL INFORMATION

City of North Muskegon
COMBINING BALANCE SHEET
Other Governmental Funds
November 30, 2005

		Special Revenue		Capital Projects						Debt Service
	Total other governmental funds	Walker Community Center	Summer Recreation	Alley Paving District #02-A	Alley Paving District #94-A	Alley Paving District #95-A	Alley Paving District #95-B	Alley Paving District #96-A, B	Alley Paving District #97-A	Special Assessment #99A
ASSETS										
Cash and investments	\$ 51,675	\$ 2,269	\$ 4,942	\$ 29,534	\$ -	\$ -	\$ 3,540	\$ 11,390	\$ -	\$ -
Special assessments receivable	10,520	-	-	10,430	-	-	90	-	-	-
Total assets	<u>\$ 62,195</u>	<u>\$ 2,269</u>	<u>\$ 4,942</u>	<u>\$ 39,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,630</u>	<u>\$ 11,390</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES (DEFICITS)										
Liabilities										
Accounts payable	\$ 436	\$ 436	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	179	179	-	-	-	-	-	-	-	-
Deferred revenue	8,940	-	-	8,940	-	-	-	-	-	-
Advances from other funds	33,673	-	-	32,898	-	-	775	-	-	-
Total liabilities	43,228	615	-	41,838	-	-	775	-	-	-
Fund balances (deficits)										
Reserved for:										
Capital projects	14,245	-	-	-	-	-	2,855	11,390	-	-
Unreserved										
Special revenue	6,596	1,654	4,942	-	-	-	-	-	-	-
Capital projects	(1,874)	-	-	(1,874)	-	-	-	-	-	-
Total fund balances (deficits)	<u>18,967</u>	<u>1,654</u>	<u>4,942</u>	<u>(1,874)</u>	<u>-</u>	<u>-</u>	<u>2,855</u>	<u>11,390</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances (deficits)	<u>\$ 62,195</u>	<u>\$ 2,269</u>	<u>\$ 4,942</u>	<u>\$ 39,964</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,630</u>	<u>\$ 11,390</u>	<u>\$ -</u>	<u>\$ -</u>

City of North Muskegon
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
 Other Governmental Funds
 For the year ended November 30, 2005

		Special Revenue		Capital Projects						Debt Service
	Total other governmental funds	Walker Community Center	Summer Recreation	Alley Paving District #02-A	Alley Paving District #94-A	Alley Paving District #95-A	Alley Paving District #95-B	Alley Paving District #96-A, B	Alley Paving District #97-A	Special Assessment #99A
REVENUES										
Charges for services	\$ 9,598	\$ 3,050	\$ 6,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment earnings	2,500	67	106	1,213	137	67	91	297	16	506
Other	1,502	-	-	1,412	-	-	90	-	-	-
Total revenues	13,600	3,117	6,654	2,625	137	67	181	297	16	506
EXPENDITURES										
Current										
Culture and recreation	13,835	4,958	8,877	-	-	-	-	-	-	-
Excess of revenues over (under) expenditures	(235)	(1,841)	(2,223)	2,625	137	67	181	297	16	506
OTHER FINANCING SOURCES (USES)										
Transfers in	1,790	1,790	-	-	-	-	-	-	-	-
Transfers out	(27,929)	-	-	-	(4,369)	(3,677)	-	-	(16)	(19,867)
Total other financing sources (uses)	(26,139)	1,790	-	-	(4,369)	(3,677)	-	-	(16)	(19,867)
Net change in fund balances (deficits)	(26,374)	(51)	(2,223)	2,625	(4,232)	(3,610)	181	297	-	(19,361)
Fund balances (deficits) at December 1, 2004	45,341	1,705	7,165	(4,499)	4,232	3,610	2,674	11,093	-	19,361
Fund balances (deficits) at November 30, 2005	<u>\$ 18,967</u>	<u>\$ 1,654</u>	<u>\$ 4,942</u>	<u>\$ (1,874)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,855</u>	<u>\$ 11,390</u>	<u>\$ -</u>	<u>\$ -</u>

City of North Muskegon
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

November 30, 2005

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

February 1, 2006

City Council
City of North Muskegon
North Muskegon, Michigan

We have audited the financial statements of the City of North Muskegon as of and for the year ended November 30, 2005 and have issued our report thereon dated February 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of North Muskegon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of North Muskegon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as Finding 1 in Part B of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

City Council
February 1, 2006
Page 2

Compliance

As part of obtaining reasonable assurance about whether the City of North Muskegon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

February 1, 2006

City Council
City of North Muskegon
North Muskegon, Michigan

Compliance

We have audited the compliance of the City of North Muskegon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended November 30, 2005. The City of North Muskegon's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of North Muskegon's management. Our responsibility is to express an opinion on the City of North Muskegon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of North Muskegon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of North Muskegon's compliance with those requirements.

In our opinion, the City of North Muskegon complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended November 30, 2005.

City Council
February 1, 2006
Page 2

Internal Control Over Compliance

The management of the City of North Muskegon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of North Muskegon's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of North Muskegon as of and for the year ended November 30, 2005 and have issued our report thereon dated February 1, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLLC

City of North Muskegon
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended November 30, 2005

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue October 1, 2004	Cash or payments in kind received (cash basis)	Amount of grant expenditures	Accrued (deferred) revenue November 30, 2005	Note
<i>U.S. Department of Transportation, Federal Highway Administration</i>							
Passed through Michigan Department of Transportation							
Highway Planning and Construction	20.205						
Proj STP0561 (316) Fed Item HH4232 Contract 05-5058		\$ 910,145	\$ -	\$ 910,145	\$ 910,145	\$ -	2
<i>U.S. Department of Homeland Security</i>							
Direct programs							
Assistance to Firefighters Grant Program	97.044						
EMW-2004-FG-15682		93,466	-	39,466	39,466	-	
 TOTAL FEDERAL ASSISTANCE		<u>\$ 1,003,611</u>	<u>\$ -</u>	<u>\$ 949,611</u>	<u>\$ 949,611</u>	<u>\$ -</u>	

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. See the notes to the financial statements for significant accounting policies used in preparing this schedule.
2. These programs are administered by the Michigan Department of Transportation (MDOT) and federal compliance reports of these programs are included in the single audit of MDOT.
3. The following is a reconciliation of federal revenues as reported on page 7 of the City of North Muskegon financial statements for the year ended November 30, 2005 and federal expenditures per the Schedule of Expenditures of Federal Awards.

Federal revenues per City of North Muskegon financial statements
for the year ended November 30, 2005 (page 7)

General Fund	\$ 39,466
Major Streets Fund	<u>910,145</u>

Federal assistance expenditures and operating transfers out per
Schedule of Expenditures of Federal Awards

\$ <u>949,611</u>

City of North Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended November 30, 2005

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of North Muskegon.
2. **One (1)** reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and is reported in Part B of this schedule. This reportable condition is not reported as a material weakness.
3. **No** instances of noncompliance material to the financial statements of the City of North Muskegon were disclosed during the audit as reported in Part B of this schedule.
4. There were **no** reportable conditions disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Parts B and C of this schedule.
5. The auditors' report on compliance for the major federal award program for the City of North Muskegon expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as a major program was:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Transportation</i> Highway Planning and Construction	20.205

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City of North Muskegon was not determined to be a low-risk auditee.

City of North Muskegon
SCHEDULE OF FINDINGS AND QUESTIONED COSTS—CONTINUED
Year ended November 30, 2005

B. FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	<u>Questioned Costs</u>
COMPLIANCE	
NONE	None
REPORTABLE CONDITIONS	
Fiscal 2005 Finding No. 1: Journal Entry Review and Approval	
<i>Condition:</i> General ledger journal entries are not reviewed and approved.	
<i>Effect:</i> Errors or the misappropriation of funds can go undetected.	None
<i>Recommendation:</i> Journal entries should be reviewed and approved by an appropriate official.	
C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT	
COMPLIANCE	
NONE	None
REPORTABLE CONDITIONS	
NONE	None

CLIENT DOCUMENTS

City of North Muskegon

1502 Ruddiman Drive
North Muskegon, MI 49445
Phone: (231) 744-1621
Fax: (231) 744-0367

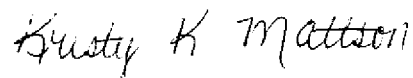
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

February 1, 2006

U.S. Department of Transportation
Washington, DC

The City of North Muskegon respectfully advises you that it was not required to have a single audit of federal awards for the year ended November 30, 2004. Accordingly, the status of prior audit findings is not applicable.

Sincerely,



Kristy Mattson
Treasurer

City of North Muskegon

1502 Ruddiman Drive
North Muskegon, MI 49445
Phone: (231) 744-1621
Fax: (231) 744-0367

CORRECTIVE ACTION PLAN

February 1, 2006

U.S. Department of Transportation
Washington, DC

The City of North Muskegon respectfully submits the following Corrective Action Plan for the year ended November 30, 2005.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: November 30, 2005

The findings from the Schedule of Findings and Questioned Costs for the year ended November 30, 2005 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

REPORTABLE CONDITIONS

Fiscal 2005 Finding No. 1: Journal Entry Review and Approval

Recommendation: Journal entries should be reviewed and approved by an appropriate official.

Action Taken: During the year ending November 30, 2006, City personnel will review existing procedures and will implement the review and approval of journal entries by appropriate personnel.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

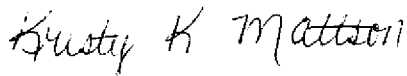
There were *no* compliance findings in relation to major federal award programs.

REPORTABLE CONDITIONS

There were *no* reportable conditions in relation to major federal award programs.

If the U.S. Department of Transportation has questions regarding this plan, please call Kristy Mattson at (231) 744-1621.

Sincerely,



Kristy Mattson
Treasurer

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

February 1, 2006

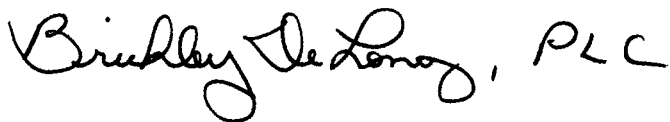
City Council
City of North Muskegon
North Muskegon, Michigan

In planning and performing our audit of the financial statements of the City of North Muskegon for the year ended November 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of North Muskegon's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITION

Recommendation 1: All journal entries should have documented approval by an appropriate member of management.

During our audit, we noted that approval of journal entries was not documented.

The maintenance of files with documented approval of journal entries would reduce the possibility of an inaccurate journal entry being made.